Hereford & Worcester Fire Authority
18 February 2015

Report of the Treasurer and the Chief Fire Officer

6. Budget and Precept 2015-16 and Medium Term Financial Plan

Purpose of report

1. To determine the Revenue and Capital Budgets and the Council Tax Requirement for 2015/16.
2. To approve the Prudential Indicators and Minimum Revenue Provision (MRP) Statement for 2015/16.
3. To identify potential future resources, their consequential impact on future year budgets and the future Council Tax Requirement.

Recommendations

It is recommended that:

i) the Capital Budget and Programme (Appendix 1) be approved;

ii) the Revenue Budget (Appendix 5) be approved;

iii) the Authority calculates that in relation to the year 2015/16:

a) the aggregate expenditure it will incur will be £32,989,000.00;
b) the aggregate income it will receive will be £13,512,414.00;
c) the net amount transferred to financial reserves will be £585,718.00;
d) the net amount of its Council Tax Requirement will be £20,062,304.00;
e) the basic amount of Council Tax will be £76.50 (Band D;
f) the precept demands on the individual Billing Authorities are:

- ***Bromsgrove £2,670,332.76***
- ***Herefordshire £5,037,173.49***
- ***Malvern Hills £2,213,791.59***
- ***Redditch £1,900,690.04***
- ***Worcester £2,296,658.88***
- ***Wychavon £3,509,992.87***
- ***Wyre Forest £2,433,664.37***

iv) the Medium Term Financial Plan (Appendix 7) be approved; and

v) the Statement of Prudential Indicators and Minimum Revenue Provision Policy be approved.

Introduction and Background

4. In February 2014 the Authority approved a Medium Term Financial Plan (MTFP), which identified a significant cumulative budget gap of £2.1m by 2016/17, and potentially £5.5m by 2019/20.

5. This budget gap formed the financial background to the Community Risk Management Plan (CRMP) which the Authority approved on 1 October 2014.

6. Final information is now available on resources:

   a. Council Tax-bases – from Billing Authorities;
   b. Band D Council Tax level – recommendation from the Policy and Resources Committee;
   c. Council Tax increase referendum threshold – from government;
   d. Collection Fund surpluses - from Billing Authorities;
   e. Estimated Retained Business Rates yield - from Billing Authorities; and
   f. Confirmed grant settlement 2015/16 – from government. *Although issued on 4th February 2015 (and unchanged from the provisional position) this will not be formally approved by parliament until 10th February 2015; after this report is issued. Any impact of the final approval will be given as a verbal update to the Authority meeting.*

7. The Policy and Resources Committee considered draft budget proposals on 27 January 2015 based on the provisional information then available. The Committee recommended to the Fire Authority that:

   a. the 2015/16 precept increase is set at £1.44 per year at Band D;
   b. the inflation assumptions now laid out in paragraph 41 are accepted; and future years planning should assume an annual precept increase of 2%.

Review of Available Resources

8. The latest projection of future resources can be split between formula grant, business rates and Council Tax precept.

Formula Grant

9. Since the new finance regime was implemented from 2013/14 there will be no re-set of proportionate distribution of grant until 2019/20 and the percentage reduction in grant for all Fire Authorities from 2014/15 is the broadly same.

10. This baseline is set by government, from which an estimate of the Authority's share of retained business rate (1%) is deducted to arrive at the grant figure payable. In reality the process is slightly more complicated than this as some elements of the grant are reducing at different rates, or are not payable to all Authorities, but the underlying principle applies.

11. The final grant figure for 2015/16 is 0.6% lower than forecast and although this is within the reasonable limits of accurate forecasting, it still represents £0.047m less resource in 2015/16.

12. Of this reduction £0.031m (0.4%) relates to assumptions government is making about the average net reduction in employers' pension contributions as a result of the introduction of the 2015 Firefighters Pension Scheme.

13. Government indicated timescales mean that it is very unlikely that the new employers contribution rates will be known before the Authority has to set a budget. The exact impact on Authority expenditure will be dependent on the ratio of 1992 and 2006 Firefighters Pension Scheme membership relative to the national average, consequently it has been deemed prudent not to assume an expenditure saving until the contribution rates are confirmed.

14. Government has given no indication of the detail of future grant reductions; therefore, in the absence of anything else, the MTFP has assumed that the underlying percentage cut indicated for 2015/16 (8.25%) will apply to future years.

15. This pre-supposes that government will not seek to top-slice future perceived savings from the 2015 Firefighters Pension Scheme.

16. Although all three major parties have suggested that they will stick to the existing control totals for 2016/17, distribution within totals may change to meet different political directions.

17. Estimating grant beyond 2016/17 is even more speculative, although the three major parties have all acknowledged that "austerity" will continue in some form until at least 2019/20.

Retained Business Rates

18. As stated above, the grant regime made an initial assumption about the level of business rates to be retained by each local authority and this is increased each year by the increase in the National Non-Domestic Rate poundage.

19. Each year however, the Billing Authorities provide an estimate of the amount they believe is collectable in 2015/16.

20. This year that figure (including Section 31 grant paid by government to compensate for continuation of some rebates) is 2.4% greater than the baseline. This compares with figures of 7.8% and 2.8% in the 2 preceding years.

21. In comparison to the 2014/15 Billing Authority estimates this is a 2.8% reduction, whereas the 2014/15 figure was higher than 2013/14 by 6.6%

22. This difference is partly due to the fact that the Billing Authorities in the Worcestershire Pool did not declare any 2013/14 deficits in their 2014/15 estimates, and these are now coming through in 2015/16.

23. Members of Policy & Resources Committee will recall that as part of the closure of the budget this issue was recognised and the additional income in 2013/14 was transferred to a reserve to be used in 2015/16. Some of this reserve is

being used to offset the one off timing issue. This has the impact of increasing the overall yield by 0.6% compared to 2014/15.

24. Given the short experience and volatility of the numbers, for future years it has been assumed that net yield will grow by the 2015/16 increase in base-line i.e. 1.9% per year.

25. Future forecasting of this income stream will improve with experience and knowledge.

Precept Assumptions

26. The level of income from precept is determined by the Band D tax and the total tax-base.

27. The actual level of tax-base has again risen significantly by 1.9% in 2015/16 as a result of :
    a. Improvement in the estimate of actual collection from tax-payers who had previously not paid any Council Tax.
    b. Changes to Council Tax support schemes increasing the amount of Council Tax payable.
    c. A review of (and reduction in) the granting of single person discounts.
    d. New properties.

28. This increase provides the Authority with £0.264m more income than was previously forecast, as well as a one off £0.222m surplus on the Collection Funds.

29. Although there have now been two years tax-base growth approaching 2%, it is not yet considered that this has established a trend and it is considered prudent to continue with the assumption of an annual 0.5% increase in the tax-base for a further year.

30. Although the annual net Collection Funds out-turn has ranged from a net deficit of £0.002m to a net surplus of £0.222m, there have been significant annual variations, both surplus and deficit, from individual Authorities and it would be imprudent to fund core expenditure from this source. The Collection Fund is therefore assumed to be neutral in future years.

Council Tax Freeze Grant

31. For 2015/16 the government has again offered an incentive to any Authority which freezes Council Tax. This grant would be payable in 2015/16 before being added to the base and then subject to proportionate grant reduction, and the estimate payable to this Authority has risen slightly from £0.210m to £0.218m.

32. Although the Authority is free to increase the precept by any level it feels is appropriate, any increase above the threshold set by government (2% for 2015/16), requires the Authority to hold a referendum on the increase. The Authority has previously concluded that a referendum is not preferable given the percentage increase necessary merely to fund the cost of the referendum.

33. Following discussion, the Policy & Resources Committee has recommended that the Authority increase the Band D tax by £1.44 per year in 2015/16 and that a planning assumption of annual increases of 2.0% thereafter be made.

34. This figure would be below the level (2.0%) that would require the Authority to conduct a referendum on the level of increase in 2015/16.

Expenditure Requirement

35. The expenditure requirement has continued to be refined and the key assumptions around pay, inflation and interest rates are outlined in the paragraphs below.

36. An assumption of general inflation at 2.5% has been made for the MTFP period. This should reflect the costs of items purchased by the Authority and not necessarily the level of Consumer Price Index (CPI) or Retail Price Index (RPI) inflation. The sum will be held as a provision to be allocated only when there is clear evidence of price rises. This will make it much easier to remove any over-provision from future year budgets.

37. In addition it has been thought prudent to include an additional inflation provision for two key areas of expenditure that are projected to individually increase well above the average CPI/RPI level. These areas are utilities (gas and electricity) and diesel fuel.

38. Although diesel and some gas prices have fallen sharply in the last few months the long term trend is uncertain, and the provision at the rates assumed amounts to only £0.020m.

39. Although the Chancellor has made clear the government's policy on public sector pay increases, i.e. a maximum of 1%, it is not entirely clear how this will translate to the fire sector as pay awards are negotiated independently of central government.

40. Whilst the 2014 award was held at 1%, it is considered prudent to provide above this for future years, although clearly if there is no pay award the resultant savings will flow through to reduce future budget gaps.

41. The relevant assumptions are summarised below in tabular form for ease of reference:

General Inflation	2.50%
Utilities - Gas	5.00%
Utilities - Electricity	5.00%
Diesel Fuel	5.00%
Pay Awards	2.00%
Long Term Interest	4.00%

42. In line with the indicated wishes of the Authority, provision has been made for a trial provision of Day Crewing Plus cover for the second pumps at Hereford and

Worcester fire stations. This proposal is subject to a detailed report elsewhere on this agenda.

Capital Programme

43. The Capital Programme, using prudent financing assumptions and based on the agreed Asset Management Plan and Fleet Strategy, and with the usual annual provision of £0.600m for minor buildings and IT schemes etc. is included as Appendix 1. The revenue consequences of the schemes, including financing costs, are included in the revenue budget projections in Appendices 3, 4, 5 and 7, and the Statement of Prudential Indicators and Minimum Revenue Provision Policy at Appendix 8.

44. Although budget provision has been given for specific schemes within the proposed Major Buildings block, as individual contracts are still subject to tender etc., individual allocations are not shown in order that the information does not compromise the Authority's negotiating position.

The Budget Gap 2015/16 to 2019/20

45. The MTFP approved in February 2014 identified cumulative budget gaps of £1.0m in 2015/16 and £2.1m by 2016/17.

46. The changes detailed in Appendices 5 and 7 including the implementation of the CRMP and the improved tax-base have resulted in a balanced budget for 2015/16 and the 2016/17 gap is reduced to £0.300m.

47. This gap can be closed by achieving savings away from the front line operational services.

48. Beyond 2016/17 the projections are more speculative but assuming:

    a. 2% annual pay awards;
    b. 2% annual increase in precept;
    c. 8% annual reduction in grant/business rates; and
    d. 0.5% annual increase in council tax-base

    A further gap of £1.6m in 2017/18 rises to £3.3m by 2019/20.

2015/16 Budget and Precept

49. In accordance with previous practice, and to provide a continuous record of year on year budget changes, Appendix 3 tracks the changes in the budget gap for the 2014/15 to 2016/17 period as originally identified in February 2013.

50. The details of movements contained in and relating to 2015/16 are summarised in Appendix 4. This consolidates the variations included in the MTFP approved in February 2013, updated in February 2014 and subsequent amendments.

51. Appendix 5 allocates these amendments to the relevant approved budget heads.

52. The net budget of £32.275m, with the expected resources, gives rise to a gross Council Tax requirement of £20.285m, reducing to £20.062m after Collection Fund surpluses. This gives a Band D precept of £76.50, an increase of £1.44 per year, or less than 3 pence per week. Full details of this calculation are laid out in Appendix 6.

Budget Risks

53. Setting a net budget at £32.275m still presents risks, for example:

- Pay Award – a provision of 2% has been made in 2015/16, a variance of +/- 0.5% adds or saves £0.090m.
- General Inflation – each additional 1% costs/saves £0.100m.
- Each 1% increase in grant cuts amounts to around £0.090m of lost income.
- Future Council Tax Policy is also unknown; although a 2.0% increase is included in the MTFP a reduction by 1.0% would reduce resources by around £0.200m.

54. In addition, following the changes in local government finance, the Authority now bears an income risk in relation to the level of income from Business Rates and the costs of Council Tax support. As yet there is insufficient experience of the new regime to quantify this risk with any accuracy.

Future Years

55. The budget gap to 2016/17, as outlined in Appendix 3, is reset to show movements from the proposed 2015/16 budget and is laid out in Appendix 7.

Excess Staff Costs

56. Following the implementation of the agreed CRMP staff reductions there will be a surplus of uniformed staff in post above that approved for the wholetime establishment.

57. The Authority had already approved the use of £0.800m of reserves (including £0.300m from general balances) to provide a higher number of firefighters on duty as often as possible for a two year period, which absorbs some of the excess cost.

58. In anticipation of the need to reduce staff numbers significantly to meet the known budget pressures, and to try to meet the Authority's desire not to instigate compulsory redundancies of uniformed staff, Members will be aware that a budget reduction reserve has been created over the last few years to meet this potential costs.

59. At 31st March 2014 the budget reduction reserve stood at £2.511m and with the addition of the previously reported planned under-spending in 2014/15 of £0.705m brings the total available up to £3.216m.

60. In addition Senior Officers have identified and pursued options for staff to be temporarily seconded to neighbouring services to reduce cost pressures. With the active co-operation of the Authority's staff this is forecast to deliver £1.8m net saving for the period 2014/15 – 2016/17.

61. The table below shows that, taking into account all these factors, it is possible to meet the costs of excess staff in accordance with the Authority's wishes by utilising £2.193m of the budget reduction reserve, leaving £1.023m available for future needs.

	2015/16	2016/17	2017/18	2018/19	2019/20
	£m	**£m**	**£m**	**£m**	**£m**
Excess Staff Employment Cost	0.603	1.332	1.101	0.626	0.111
Net Secondment Income	-1.273	-0.007			
	-0.670	**1.325**	**1.101**	**0.626**	**0.111**
Use of budget Reduction Reserve	0.670	-1.025	-1.101	-0.626	-0.111
Use of General Balances		-0.300			
Net Impact	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**

Investment of Surplus Funds

62. In accordance with the Authority's Treasury Management Strategy, surplus funds are invested by Worcestershire County Council alongside their own funds.

63. Given the continuing uncertainty in financial markets, the Treasurer advises that investment should continue to be focussed on security. As a consequence surplus funds continue to generate low returns which are factored into the budget.

64. Since October 2008 the Authority has adopted a policy of avoiding new long term borrowing, where working capital balances permit. The Authority will only extend long term borrowing when cash-flow requirements dictate that it is necessary, and only to finance long term assets

Revenue Reserves Strategy

65. The table below shows the projected position in relation to balances compared to the budget requirement over the MTFP period. The budget requirement figure is based on the projection of future resources (see Appendix 7) available rather than the budget need as this will be the determinant of future budget requirements. As the level of funding is determined by the decision on Council Tax increase, both sets of details are shown, although there is no material difference between levels.

	2015/16	2016/17	2017/18	2018/19	2019/20
	£m	**£m**	**£m**	**£m**	**£m**
General Balances at 1 April	1.838	1.838	1.538	1.538	1.538
Approved Use		(0.300)			
General Balances at 31 Mar	1.838	1.538	1.538	1.538	1.538
Indicative Budget Requirement	32.275	31.677	31.283	30.072	30.935
% of Budget Requirement	5.7%	4.9%	4.9%	5.0%	5.0%

66. No addition to balances in 2014/15 is shown; as P&R Committee has approved that the projected and managed in-year underspending is transferred to the Budget Reduction Reserve established in 2013/14.

67. The average level of balances now projected at around 4.6%-4.8% is marginally higher than the 4.4% - 4.6% in the previous MTFP and reflects further reductions in the level of future funding rather than a gain in balances. The underlying risk environment remains unchanged.

68. The Budget Reduction Reserve will be used to meet the phasing costs of the staffing reduction decisions already taken to close the budget gaps to 2016/17 (see paragraphs 56 to 61 above) and any further phasing costs necessary to achieve the cost reductions implied from the future budget gaps outlined in Appendix 7.

69. For information the planned use of the Budget Reduction Reserve as outlined is as below and leaves just over £1.0m to meet future needs arising.

	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£m	**£m**	**£m**	**£m**	**£m**
Balances at 1 April 2014	2.511				
Planned Transfer in 2014/15	0.705				
Brought Forward	3.216	3.886	2.861	1.760	1.134
Planned Contribution 2015/16	0.670				
Planned Usage 2016/17		(1.025)			
Planned Usage 2017/18			(1.101)		
Planned Usage 2018/19				(0.626)	
Planned Usage 2019/20					(0.111)
Carried Forward	3.886	2.861	1.760	1.134	1.023

70. Although there is no guidance as to the exact level of balances that it is reasonable for any Authority to hold, a level of around £1.5m or 5% is considered to be prudent. The Authority has to be mindful of the opportunity to quickly replenish balances if they are called upon and this becomes much harder in a financial regime where central government controls grant, business rate levels and council tax levels.

71. It is worth quoting Rob Whiteman (Chief Executive of CIPFA) in an open letter to Melanie Dawes (the new Permanent Secretary to DCLG) *"For the avoidance of doubt, CIPFA's guidance to chief finance officers is clear that at a time of increasing financial risk, a council making cuts should also increase reserves to reflect the greater volatility of its budget."*

72. Whilst this level of balances is desirable, there is an opportunity cost of holding balances. They could be used to finance one off expenditure or temporarily reduce the Council Tax precept. The risk is, however, that any unforeseen expenditure could not be met.

Prudential Code Indicators

73. Since 1 April 2004, the Local Authority capital finance system has been one of self-regulation based on a Prudential Code drawn up by the Chartered Institute of Public Finance and Accountancy (CIPFA).

74. The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of Local Authorities are affordable, prudent and sustainable or, in exceptional cases, to demonstrate that there is a danger of not ensuring this, so that the Local Authority concerned can take timely remedial action.

75. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. The Prudential Code also has the objective of being consistent with and supporting, local strategic planning, local asset management planning and proper option appraisal.

76. To demonstrate that Authorities have fulfilled these objectives, the Prudential Code sets out indicators that must be used and the factors that must be taken into account. The Code does not include suggested indicative limits or ratios. These are for a Local Authority to set itself, subject only to any controls under Section 4 of the Local Government Act 2003 (Government Reserve Powers).

77. The prudential indicators required by the Code are designed to support and record local decision making. They are not designed to be comparative performance indicators and use of them in this way would be likely to be misleading and counter-productive. In particular, Local Authorities had widely differing debt positions at the start of the prudential system and the differences are likely to increase over time as a result of the exercise of local choices. The system is specifically designed to support such local decision making in a manner that is publicly accountable.

78. In setting or revising the prudential indicators, the Authority is required to have regard to the following matters:

- affordability, e.g. implications for Council Tax;
- prudence and sustainability, e.g. implications for external borrowing;
- value for money, e.g. options appraisal;
- stewardship of assets, e.g. asset management planning;
- service objectives, e.g. strategic planning for the Authority; and
- practicality, e.g. achievability of the forward plan.

79. The Treasurer has prepared the prudential indicators having considered the matters above.

Minimum Revenue Provision (MRP)

80. Minimum Revenue Provision is the amount set aside in the revenue budget to meet the future repayment of borrowing incurred to pay for capital investment.

81. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 require that an Authority sets its own prudent level of MRP, by adopting a policy in advance of the year to which it relates.

82. For ease of reference both the prudential indicators (paragraphs 73 to 79 above) and the proposed minimum revenue provision are set out in the "Statement of Prudential Indicators and Minimum Revenue Provision (MRP) Policy" at Appendix 8.

Business Consultation

83. In accordance with established practice, statutory consultation with business rate-payers has been initiated by correspondence with appropriate representatives of business(the Chamber of Commerce, the local branches of the Confederation of Small Businesses and the National Farmers' Union). To date no responses have been received.

Budget Calculations: Personal Assurance Statement by the Treasurer

84. Section 25 of the Local Government Act 2003 requires the Treasurer to report to the Authority when it is setting the budget and precept (Council Tax). The Authority is required to take this report into account when making its budget and precept (Council Tax) decision. The report of the Treasurer must deal with the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides.

85. The Treasurer states that to the best of his knowledge and belief these budget calculations are robust and have full regard to:

- the Fire Authority budget policy;
- the need to protect the Fire Authority's financial standing and to manage risk;
- the current year's financial performance;
- the financial policies of the Government;
- the Fire Authority's Medium Term Financial Plan and Planning framework;
- capital programme obligations;
- Treasury Management best practice;
- the strengths of the Fire Authority's financial control procedures including audit consideration;
- the extent of the Authority's balances and reserves; and
- the prevailing economic climate and future prospects.

Equality and Diversity Impact

86. The immediate impact on recruitment activities means that progress against equality and diversity targets for the recruitment of wholetime female and Black Minority Ethnic (BME) firefighters will not be achievable. However, retained recruitment will continue to be based on need and in this area the Service will continue to do all it can to address our diversity targets.

87. It is no longer a requirement to report such targets at government level, but employment levels continue to be monitored to ensure that although limited positive progress can be made in this period, any recruitment that does take place happens in an environment of good equalities practice.

Corporate Considerations

Resource Implications (identify any financial, legal, property or human resources issues)	Yes – whole report
Strategic Policy Links (identify how proposals link in with current priorities and policy framework and if they do not, identify any potential implications).	Yes – Resourcing for the Future
Risk Management / Health & Safety (identify any risks, the proposed control measures and risk evaluation scores).	No
Consultation (identify any public or other consultation that has been carried out on this matter)	Yes – consultation with Business Rate-Payers as required by legislation
Equalities (has an Equalities Impact Assessment been completed? If not, why not?)	No

Supporting Information

Appendix 1	Capital Programme
Appendix 2	Personnel Budget
Appendix 3	Previous MTFP Progress
Appendix 4	Revenue Budget Changes 2014/15 to 2015/16
Appendix 5	Revenue Budget Allocation 2015/16
Appendix 6	Council Tax Requirement Calculation 2015/16
Appendix 7	Medium Term Financial Forecasts 2016/17 to 2019/20
Appendix 8	Statement of Prudential Code Indicators and Medium Revenue Provision Policy.

Background Papers

Policy & Resources Committee 27 January 2015: Budget 2015/16 & Review of Medium Term Financial Plan

Fire Authority 10 December 2015: Revision to Medium Term Financial Plan

Policy and Resources Committee 19 November 2014: Revision to Medium Term Financial Plan

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